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April 11, 2003

**VIA HAND DELIVERY**

Ms. Sara Kyle, Chairman  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, TN 37243

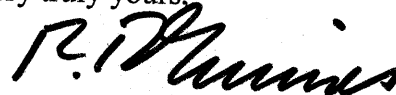
**Re: *Petition of Tennessee American Water Company to Change and Increase Certain Rates and Charges So As to Permit It to Earn a Fair and Adequate Rate of Return on Its Property Used and Useful In Furnishing Water Service to Its Customers, Docket No. 03-00118.***

Dear Chairman Kyle:

Enclosed please find the original and 13 copies of Tennessee American Water Company's Motion for Leave to Propound Additional Interrogatories on Intervenor Consumer Advocate and Protection Division of the Office Of Attorney General for filing in the above-referenced docket. Also enclosed is an additional copy of the Motion, which I would appreciate your stamping as "filed," and returning to me by way of our courier.

Should you have any questions with respect to this filing, please do not hesitate to contact me at the telephone number listed above.

Very truly yours,



R. Dale Grimes

RDG/da

Enclosures

cc: Certificate of Service List (w/ enclosure)  
Mr. William F. L'Ecyer (w/ enclosure)  
Mr. Michael Miller (w/ enclosure)  
Mr. Roy Ferrell (w/ enclosure)  
T.G. Pappas, Esq. (w/ enclosure)  
George Masterson, Esq. (w/ enclosure)

**BEFORE THE TENNESSEE REGULATORY AUTHORITY  
NASHVILLE, TENNESSEE**

IN RE:

PETITION OF TENNESSEE AMERICAN )  
WATER COMPANY TO CHANGE AND )  
INCREASE CERTAIN RATES AND )  
CHARGES SO AS TO PERMIT IT TO )  
EARN A FAIR AND ADEQUATE RATE )  
OF RETURN ON ITS PROPERTY USED )  
AND USEFUL IN FURNISHING WATER )  
SERVICE TO ITS CUSTOMERS )

Docket No. 03-00118

**TENNESSEE AMERICAN WATER COMPANY'S  
MOTION FOR LEAVE TO PROPOUND ADDITIONAL INTERROGATORIES  
ON INTERVENOR CONSUMER ADVOCATE AND PROTECTION DIVISION  
OF THE OFFICE OF ATTORNEY GENERAL**

Tennessee American Water Company ("TAWC") respectfully moves for leave to propound additional interrogatories on Intervenor Consumer Advocate and Protection Division ("CAPD"). A copy of the proposed interrogatories are attached hereto as Exhibit A and were provided to the CAPD on Thursday, June 5, 2003. TAWC respectfully submits that leave to propound these interrogatories should be granted and that CAPD's responses should be served by Friday, June 13, 2003.

In support of this motion, TAWC would respectfully state that these interrogatories are necessitated by the testimony of CAPD witness Steve N. Brown, filed May 30, 2003, and are required in order for TAWC to prepare its rebuttal testimony due June 20, 2003, and for the hearing scheduled for June 30, 2003. Accordingly, they are directly relevant to the issues in this docket. Moreover, the interrogatories are not burdensome but are very narrowly tailored to address discrete matters raised in Dr. Brown's testimony, and they are not duplicative of any discovery requests previously

made by TAWC in this case. The proposed interrogatories include 35 specific questions, which, when added to the 11 previously served on March 26, 2003, slightly exceed the standard limit of 40 allowed under the TRA's rules. However, in light of the fact that TAWC has responded to nearly 100 discovery requests from the CAPD in this case, TAWC's proposed discovery can hardly be outside reasonable bounds.

TAWC further submits that these interrogatories should not be precluded due to the procedural schedule established for the case. Instead, the discovery should be permitted in fairness to TAWC as this is its first opportunity to serve interrogatories in response to any testimony of the CAPD. By contrast, the intervenors have had two rounds of discovery since TAWC filed its testimony at the commencement of the case. The hearing is still more than three weeks away. During that time, TAWC is required to prepare and file rebuttal testimony as well as prepare for the hearing; CAPD will not be unduly inconvenienced by being required to respond to these interrogatories.

Finally, TAWC requests that CAPD be ordered to provide its responses by Friday, June 13, 2003. The primary purpose of these interrogatories is to enable TAWC to prepare rebuttal testimony, which is due June 20. In order to make use of the requested information in that rebuttal testimony, the responses must be received at least a week in advance of the rebuttal testimony deadline.

For the foregoing reasons, TAWC respectfully requests an order granting leave to propound the attached interrogatories and requiring CAPD to respond by June 13, 2003.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "R. Dale Grimes", written over a horizontal line.

T. G. Pappas (#2703)

George H. Masterson (#6241)

R. Dale Grimes (#6223)

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*Counsel for Petitioner*

*Tennessee American Water  
Company*

### CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of Tennessee American Water Company's Motion to Compel Responses to Discovery Propounded on Chattanooga Manufacturers Association has been served, via the method(s) indicated, on this the 6th day of June, 2003, upon the following:

- ☐ Hand
- ☒ Mail
- ☒ Facsimile
- ☐ Overnight

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Tennessee-American Water Company

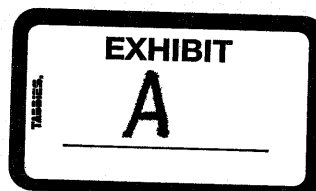
Docket No. 03-00118

Interrogatories direct to the testimony of

Steve N. Brown

Witness for the Attorney General

- SNB-1 Re. Testimony pages 1 through 59. Please provide an electronic copy of the testimony in either Microsoft Word or Correll WordPerfect.
- SNB-2 Re. Exhibit CAPD-SB 1 through SB 16. Please provide an electronic copy of the schedules that were prepared either Microsoft Excel or Lotus spreadsheet format.
- SNB-3 Re. Testimony pages 1 through 3. Has Dr. Brown previously submitted rate of return testimony in rate cases for water utilities before the Tennessee Regulatory Authority or other regulatory agencies? If so, please provide a copy of those testimonies.
- SNB-4 Re. Testimony page 2 lines 16-18. Please provide copies of all articles published by Dr. Brown in "Public Utilities Fortnightly" and "Electricity Journal."
- SNB-5 Re. Testimony page 4 lines 17-19. Please provide support for the selection of the past 12 months to gauge achieved returns on equity for publicly traded companies in the United States.
- SNB-6 Re. Testimony page 4 lines 20-22. Please provide a list of the companies and their achieved returns that were less than 6.3%.
- SNB-7 Re. Testimony page 4 lines 36-37. Please provide a list of each instance where the Company's evidence of the cost of equity relied on statistical practices that are not in general practice. In the response please provide documentary support (e.g. references in textbooks, articles in scholarly journals, etc.) that defines statistical practices that are in general practice.
- SNB-8 Re. Testimony page 12 lines 6-7. Please provide support for the assertion that American Water Works is no longer the parent of Tennessee-American.
- SNB-9 Re. Testimony page 12 lines 18-25. Please indicate if Dr. Brown is aware of any instances where a utility without a parent company affiliation has paid out dividends in excess of earnings. If he is aware of any instances, please list the company, the dates, and dividend payout ratios.
- SNB-10 Re. Testimony page 16 lines 1-4. Please provide a copy of all public records that indicate the RWE has the power to set prices for water supply service.



Tennessee-American Water Company

Docket No. 03-00118

Interrogatories direct to the testimony of

Steve N. Brown

Witness for the Attorney General

- SNB-11 Re. Testimony page 18 lines 31-36. Please explain how "provisions" with carrying costs are any different from tax or pension provisions that also cannot be claimed by equity holders.
- SNB-12 Re. Testimony page 23 lines 15-28 and Exhibit CAPD-SB 2. Please provide the following items: (a) please indicate whether the returns shown on Exhibit CAPD-SB 2 are based on market values or book values, (b) please indicate the methodology used to calculate the returns if they are market based, e.g., do they include dividends and reinvestment of those dividends, (c) please indicate the methodology used to calculate the returns if they are book value based, e.g., are they calculated on year-end or average book value and is income stated before or after preferred and/or common dividends, and (d) please provide the initial date (month, day and year) and terminal date (month, day and year) for these calculations.
- SNB-13 Re. Testimony page 23 lines 33-34. Are the returns from the regulated companies those that were determined by a regulatory agency in a rate case proceeding? If not, please provide those authorized returns established by the respective regulatory agencies.
- SNB-14 Re. Testimony page 25 lines 34-35. Of the firm's shown on Exhibit CAPD-SB 2, please identify "one of the firms" and its associated rate of return.
- SNB-15 Re. Testimony page 28 lines 20-21. Please provide the names, addresses, telephone numbers, and notes from conversations that Dr. Brown has had with banks, mortgage lenders, homebuyers and businesses that are betting that current interest rate conditions will prevail for the foreseeable future. Also, please define in terms of days, months or years "foreseeable future."
- SNB-16 Re. Testimony page 34 lines 6-11. Please identify the two additional companies listed on the American Stock Exchange.
- SNB-17 Re. Testimony page 36 lines 5-9 and Exhibit CAPD-SB 7. Please identify the specific companies that are on the cusp of mergers or acquisitions based upon the SEC filings listed on Exhibit CAPD-SB 7.
- SNB-18 Re. Testimony page 37 lines 2-3. Please identify the specific risk measured by beta, e.g., business risk, financial risk, investment risk, etc.
- SNB-19 Re. Testimony page 37 lines 32-34. Please provide the names, addresses, telephone numbers, and notes from conversations that Dr. Brown has had with professionals in the "financial industry" concerning Value Line betas.

Tennessee-American Water Company

Docket No. 03-00118

Interrogatories direct to the testimony of  
Steve N. Brown

Witness for the Attorney General

- SNB-20 Re. Testimony page 37 lines 34-38. Please explain why Merrill Lynch betas were not included in Exhibit CAPD-SB 8. Is Merrill Lynch part of the "financial industry?"
- SNB-21 Re. Testimony page 37 lines 34-38 and Exhibit CAPD-SB 8. Please provide a hard copy of the source documents for each beta listed on Exhibit CAPD-SB 8.
- SNB-22 Re. Testimony page 38 line 1 and Exhibit CAPD-SB 8. Please provide the source documents, the variables, and workpapers used to compute the CAPD betas. Specifically include the individual stock prices and dividends used in calculating the returns, the market index, the measurement interval (weekly, monthly, etc.), and all regression statistics related to each beta.
- SNB-23 Re. Testimony page 49 lines 24-25. Please provide copies of documentary support (references in textbooks, articles in scholarly journals, etc.) that support the statement "...a process often described as leveraging an equity beta into an asset beta."
- SNB-24 Re. Testimony page 50 lines 2-4. Please provide copies of documentary support (references in textbooks, articles in scholarly journals, etc.) for the assertion "'asset betas' has no particular economic measuring because a company's book value can stay constant while betas fluctuate."
- SNB-25 Re. Testimony page 50 lines 9-15. Please provide a complete copy of: "Final Report, Empirical Evidence on Proxy Beta Values for Regulated Gas Transmission Activities: July 2002 Report for the Australian Competition and Consumer Commission," prepared by the Allen Consulting Group of Melbourne, Australia.
- SNB-26 Re. Testimony page 53 lines 33-38 and Exhibit CAPD-SB 14. Please provide a copy of the source documents for this schedule. Specifically provide: (a) a printout of each [www.morningstar.com](http://www.morningstar.com) page, (b) the price per share and dividends per share value used for the yield calculation, (c) the date(s) of the prices used in the yield calculation, (d) a statement of whether the dividend amount in the yield calculation shown in column 7 was reflective of the expected dividend in the next period, (e) the methodology used to compute the dividend growth rate shown in column 6, and (f) the workpapers showing the calculation of each dividend growth rate shown in column 6.



Tennessee-American Water Company

Docket No. 03-00118

Interrogatories direct to the testimony of

Steve N. Brown

Witness for the Attorney General

- SNB-27 Re. Testimony page 54 lines 9-10. Please provide the names, addresses, telephone numbers, and notes of conversations that Dr. Brown has had with individual and/or institutional investors in the context of: "The DCF model does exactly what every investor does."
- SNB-28 Re. Testimony page 54 lines 9-10. Please provide copies of documentary support (references in textbooks, articles in scholarly journals, etc.) that supports the assertion that: "The DCF model does exactly what every investor does."
- SNB-29 Re. Testimony page 54 lines 25-27. Please provide copies of documentary support (references in textbooks, articles in scholarly journals, etc.) that: "The DCF model neither protects investors from risk nor penalizes them for what happens in the stock market."
- SNB-30 Re. Testimony page 56 lines 14-19. Please provide copies of documentary support (references in textbooks, articles in scholarly journals, etc.) that specifies the use of the cost-of-debt as a substitute for the risk-free rate of return in the CAPM.
- SNB-31 Re. Testimony page 56 lines 27-33 and Exhibit CAPD-SB 15. Please provide the source documents for the betas for each company, industry, sector and S&P 500 listed therein. Also, please provide the names of the companies that comprise the industry and sector.
- SNB-32 Re. Testimony page 56 lines 27-33. Please provide the source document for the market return ("R<sub>m</sub>") of 15%.
- SNB-33 Re. Testimony page 56 lines 27-33. Please provide the workpapers for the 7.5% return.
- SNB-34 Re. Testimony page 58 lines 2-3 and Exhibit CAPD-SB 13. Please provide the workpapers and source documents showing the development of the equity ratio and debt ratio for each of the twelve water companies. Specifically, please provide the date of the ratios, the dollar amount of equity, and the dollar amount of debt for each company.
- SNB-35 Re. Testimony page 58 lines 22-25 and Exhibit CAPD-SB 16. Please provide the workpapers showing the 6.00% parent company cost of debt.